

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 SY-04 SCCT-01 NIC-01

NSC-05 SS-15 STR-01 CEA-01 DODE-00 PA-01 USIA-06

PRS-01 L-02 H-01 /089 W

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R 241730Z JAN 75

FM AMCONGEN NAPLES

TO SECSTATE WASHDC 4220

INFO AMEMBASSY ROME

AMCONGEN MILAN

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E.O. 11652: GDS

TAGS: EIMV, I?

SUBJECT: ECONOMIC DIFFICULTIES OF AMERICAN SUBSIDIARIES IN NAPLES

REF: NAPLES 0048, 0059; NAPLES MEMCONS RE RICHARDSON MERRELL (MAY 17
& JULY 8, 1974 AND JAN. 14, 1975)

1. PRESIDENT, MERRELL INT'L., J.K. LINDSAY AND PRESIDENT OF SUB-
SIDIARY RICHARDSON-MERRELL ITALIANA (R-M), LUIS HERWANDEZ, CALLED
ON ME JAN. 23 TO DTSCUSS FINANCIAL PLIGHT AND CLOUDY FUTURE OF
R-M'S NAPLES PHARMACEUTICAL PLANT. ACCORDING LINDSAY, PRICE CONTROLS
(NO INCREASES SINCE 1964) AND RAPIDLY RISING COSTS (MATERIALS UP
36 PER CENT; LABOR UP 25 PER CENT IN LAST YEAR) CAUSING HEAVY LOSSES.
PROBLEM AGGRAVATED BY FAILURE OF LARGELY GOVERNMENT HOSPITALS, IN

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FINANCIAL TROUBLE THEMSELVES, TO PAY \$6 MILLION OWED FIRM. EVEN IN
BEST FORESEABLE CASE, WITH TEN PER CENT PRICE INCREASE, PAYMENT BY
HOSPITALS, AND DISMISSAL SUBSTANTIAL NUMBER OF PRESENT WORK FORCE OF
880, LINDSAY CLAIMSTHAT R-M WOULD STILL BE IN THE RED. MERREL INT'L,
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HAS NEVER CLOSED FOREIGN PLANT, EXCEPT PROPRIETARY FIRM IN ARGENTINA

(1974). HOWEVER, HARDDECISION MUST SOON BE MADE RE FUTURE R-M NAPLES PLANT.

2. LINDSAY INDICATED THAT HE FAVORED SEEKING QUOTE PERIOD OF RESPITE UNQUOTE, WITH FIRM DISMISSING 200-400 WORKERS TO REDUCE LOSSES, AND CONTINUING OPERATIONS ON REDUCED SCALE UNTIL MARKET CONDITIONS IMPROVE

TO PREPARE THE WAY FOR SUCH ACTION HE HAS CALLED ON FINANCE MINISTER VISENTINI AND NUMBER OF SECOND ECHELON OFFICIALS IN ROME CONCERNED WITH PHARMACEUTICAL INDUSTRY. HE MAY SEEK EMBASSY ASSISTANCE FOR APPOINTMENTS WITH MINISTER FOR THE SOUTH ANDREOTTI AND/OR MINISTER OF INDUSTRY DONAT-CATTIN.

3. HOWEVER, ACCORDING LINDSAY AND HERNANDEZ, MOUNTING AGITATION AND POLITICAL PRESSURES FOR JOB GUARANTEES, GENERATED BY MILITANT FACTORY WORKERS' COUNCIL, MAY FORCE R-M TO DECLARE ITS INTENTIONS SOONER THAN MANAGEMENT DESIRES. LINDSAY ALSO EXPRESSED CONCERN REGARDING STRIENT ANTI-U.S. TONE OF RECENT PROTESTS AND FIRM'S

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VULNERABILITY TO INTERRUPTION OF ITS CONTINUOUS PROCESS OPERATIONS, SUCH AS FLU VACCINE PLANT, WHICH COULD CAUSE ENORMOUS LOSSES.

3. MEANWHILE, DIFFICULTIES OF OTHER AMERICAN SUBSIDIARIES ARE BEGINNING TO SURFACE. MANAGER OF TEXAS INSTRUMENTS ELECTRONICS SUBSIDIARY INFORMED CONGEN THAT FIRM HAS REACHED AGREEMENT WITH UNIONS TO USE WAGE-SUPPLEMENT FUND MECHANISM TO LAY OFF 500 WORKERS FOR ONE DAY PER WEEK DURING NEXT FOUR MONTHS. 3M ITALIA MANAGEMENT DEBATING SIMILAR STEP AT TWO PLANTS IN CASERTA PROVINCE. NOTIFICATION TO UNIONS COULD COME WITHIN TWO WEEKS. MANAGEMENT, SPERRY SU TYPEWRITER PLANT, STATES THAT PRESSURE BUILDING FROM U.S. PARENT COMPANY TO REDUCE NUMBER OF EMPLOYEES ON PERMANENT BASIS. HOROWITZ

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, SUBSIDIARIES
Control Number: n/a
Copy: SINGLE
Draft Date: 24 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975NAPLES00068
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750028-1109
From: NAPLES
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750123/aaaaatyx.tel
Line Count: 92
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 NAPLES 0048, 75 0059, 75 LL (MAY 17
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 04 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 JUN 2003 by ElyME>; APPROVED <14 OCT 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DIFFICULTIES OF AMERICAN SUBSIDIARIES IN NAPLES
TAGS: EIND, IT, US, NAPLES PHARMACEUTICAL PLANT
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006